VZCZCXYZ0000
RR RUEHWEB

DE RUEHAD #0105/01 0560940
ZNY SSSSS ZZH
R 250940Z FEB 10
FM AMEMBASSY ABU DHABI
TO RUCPDOC/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHC/SECSTATE WASHDC 0364
INFO GULF COOPERATION COUNCIL COLLECTIVE
RHEHNSC/WHITE HOUSE NATIONAL SECURITY COUNCIL WASHINGTON DC
RUEAIIA/CIA WASHINGTON DC

S E C R E T ABU DHABI 000105

SIPDIS
NOFORN

E.O. 12958: DECL: 2035/02/25
TAGS: PGOV PREL PTER EFIN AF AE IR
SUBJECT: D/S Wolin Discusses Global Recovery with UAE Officials

CLASSIFIED BY: Richard G. Olson, Ambassador, State Department, U.S. Embassy Abu Dhabi; REASON: 1.4(B), (D)

TREASURY FOR WOLIN, LEVEY, COHEN, BAUKOL, MENDELSOHN, MUNDACA

STATE FOR EEB, AND NEA/ARP

COMMERCE FOR LOCKE

USTR FOR KIRK

¶1. (U) Summary. On 15-16 February 2010, Treasury Deputy Secretary Neal Wolin met with UAE officials to review progress in the global economic recovery. UAE officials expressed approval of U.S. measures to restore global growth and stressed the resilience of the UAE's economy in navigating Dubai's debt woes. Wolin met with Foreign Minister Sheikh Abdullah bin Zayed al Nahyan, Abu Dhabi Investment Authority (ADIA) Managing Director Sheikh Ahmed bin Zayed al Nahyan, Minister of State for Financial Affairs Obaid al Tayer, Minister of Foreign Trade Sheikha Lubna al Qasimi, Minister of Cabinet Affairs Mohammed al Gergawi, Central Bank Governor Sultan bin Nasser al Suweidi, Abu Dhabi Investment Council (ADIC) Managing Director Khalifa al Kindi, and Ahmed al Tayer, who serves as Governor of the Dubai International Financial Centre (DIFC) and Chairman of Emirates - National Bank of Dubai (E-NBD).

¶2. (U) Wolin engaged in outreach events connecting with young Arab leaders, entrepreneurs and students, hosted by Abu Dhabi's Tawteen initiative (preparing young Emirati nationals for private sector employment) and the Dubai School of Government. He also attended a lunch hosted by Dubai Supreme Fiscal Debt Committee Chairman Sheikh Ahmed bin Saeed al Maktoum, who was joined by 14 top economic decision makers from UAE, Abu Dhabi and Dubai government entities. End Summary.

ECONOMIC RECOVERY

¶3. (C) Wolin provided an overview of relevant economic data indicating that the U.S. economic recovery is on firmer ground, but much work remains ahead. He discussed U.S. GDP growth, unemployment, investment, fiscal stimulus, taxes, mortgage markets, trade, deficits, labor productivity, bank capitalization and financial sector reform. With respect to Dubai's debt

restructuring, Wolin urged the UAE be transparent, non-discriminatory with lenders, and try to manage through the crisis as quickly as possible in the interest of the UAE economy and international capital markets. Wolin stressed the value placed on the U.S.-UAE partnership, and emphasized the deep importance of UAE strength to the U.S. Government.

¶4. (S/NF) UAE officials praised U.S. measures to stabilize the global economy. Governor Suweidi stated that the stimulus package "did miracles" and helped change the direction of the global economy. He said the engineers of the package should be thanked. He also pointed to measures implemented by the UAE government to promote growth and stabilize the banking sector. Suweidi agreed that difficult issues will still arise, but speculated that the most difficult period is in the past. He reaffirmed the UAE's intent to retain the dirham-dollar peg and saw no need for a revaluation.

¶5. (S/NF) Suweidi reviewed overinvestment in the UAE's real estate sector and the resulting impact on the UAE banking sector. He said banks will lose money, but that there is no issue of insolvency, pointing to high capitalization rates and the UAE's strong fiscal position. The Governor expects Dubai's economy to suffer for 10-12 years as it absorbs excess capacity. He expects haircuts on Dubai World related debts, but did not offer possible numbers. He acknowledged that certain UAE banks may need additional governmental support, depending on the outcome of the restructuring

talks.

¶6. (S/NF) ADIC MD Khalifa al Kindi described the excessive and rapid growth of UAE banks - pointing out that from 2003-2008, the UAE banking sector witnessed balance sheet growth greater than experienced for the entire preceding 30 years. He described property values in Dubai and Abu Dhabi today as significantly overvalued, even though 40-70% declines have already been marked. He mentioned a 2008 report by Jones Lang LaSalle that recorded real estate prices in Dubai trading at a 30% premium to Manhattan, where Khalifa al Kindi believed a 50% discount made economic sense.

¶7. (S/NF) Khalifa al Kindi noted varying degrees of transparency and accounting integrity at UAE banks in light of needed write downs and NPLs stemming from exposure to Dubai debt, disgraced Saudi conglomerates Saad/Gosaibi, UAE real estate more broadly, and overstretched UAE consumers. With regard to rumored haircuts on Dubai World related debt, Khalifa retorted that haircuts of any significant size would entirely wipe out the capital of a few UAE banks, and substantially damage others. If such haircuts are in fact imposed, he expects both local and international banks to sue. He found it unexplainable that with current financial conditions, certain UAE banks continued recording profits and paying healthy dividends, when they should instead be conserving capital, taking provisions and recognizing losses.

¶8. (S/NF) Minister of State for Financial Affairs Obaid al Tayer speculated that UAE economic recovery would lag the U.S. by 9 months. He projected growth in the UAE to be 1.5 - 2.5% in 2010, 4 - 5% for 2011-2014, and then 5 - 7% after 2014. He said Dubai infrastructure is already built, and that no more is needed following years of heavy investment in ports, roads, hotels, housing, transportation, etc.

¶9. (S/NF) Obaid al Tayer commended UAE government steps to support the banking sector and noted exceptionally high capital adequacy ratios averaging 19.9%. He said UAE banks are well positioned for further provisioning and NPLs, but added that if one or two banks

are hurt by the Dubai World restructuring "between the Central Bank, Ministry of Finance and federal government, we are going to take care of the banks...we will support them." He speculated that 2010 will be the bottom year for UAE banking sector performance.

¶10. (S/NF) On the Dubai World restructuring, Obaid al Tayer stated that the Dubai Fiscal Support Fund will be talking to banks over the next 2-3 weeks, hopefully adding clarity to the situation. He agreed with Wolin's call for transparency, insisting that transparency is essential if the UAE is going to be a global player. He admitted that the UAE is late in conforming to IMF data transparency guidelines (the GDDS), adding "we can't get there overnight, but we are headed there and taking the right steps." He declined to comment on market rumors floating possibilities of a 40% haircut, but suggested that some circles may be "testing the market."

¶11. (S/NF) Obaid al Tayer said the UAE is trying to implement faster decision making processes. He said Abu Dhabi is already setting up a debt management office and the federal government is working with the World Bank on a federal debt management office, with a formal law on the subject hopefully no more than 2-3 months away. He shared that other less advanced Emirates didn't even have budgets, raising further obstacles to transparency.

¶12. (C) Minister of Cabinet Affairs Mohammed al Gergawi expressed confidence that Dubai will remain the business capital for the Middle East despite the current debt situation: "the world has changed, and Dubai will change." He stressed that Dubai is a city within a country and praised the strength of the UAE's federal system - a key refrain acknowledging financial support from Abu

Dhabi. He acknowledged that Dubai took risks, but pointed to Dubai's newly built infrastructure and other acquired assets that can be sold or otherwise monetized. He said that outside of Dubai World, other Dubai government related entities (GREs) would not have problems with their debt, assuming that the global recovery is not derailed.

¶13. (C) Gergawi emphasized the strategic importance of Dubai to the MENA region and to the United States. He held out Dubai as an important model pushing the rest of the region to open their economies and liberalize their societies. He ticked off the values embodied in UAE and Dubai society, including tolerance, entrepreneurship, and middle class upward mobility similar to the American dream. Dubai and the UAE give young Arabs a path, a place to exchange ideas and meet people. Gergawi pointed to Dubai's efforts to build a moderate media outlet in the Middle East that serves to promote American values and interests. He shared a personal story, admitting that he was anti-U.S. in high school, until he spent time in the U.S. as a student and developed personal bonds with Americans, including an English teacher that was Jewish. He said on a recent visit to New York, he took his kids to a Jewish synagogue led by a Syrian rabbi.

¶14. (C) Commenting on Dubai's crisis, DIFC Governor Ahmed al Tayer bluntly stated, "thank god for support from Abu Dhabi and the federal government." He said some sectors are showing signs of growth and stability, such as tourism , logistics, trade and aviation, but real estate remained deeply troubled, citing the embattled mortgage finance firms Amlak and Tamweel that got caught with an asset liability mismatch. He said Dubai now has sufficient infrastructure to power growth for 30 years. On the Dubai World restructuring, he confirmed that the UAE would not discriminate between local and overseas lenders, unlike the Saudi resolution of the Saad/Gosaibi blow up. He touted the DIFC as a platform needed to serve the region, and noted increased interest and activity coming from India and Russia in particular.

SWFs

¶15. (C) Wolin thanked ADIA for its support of the U.S. and its confidence in the U.S. economy. He reiterated the strong partnership that exists between the U.S. and the UAE on a variety of political, economic and strategic issues, and the important cooperation between ADIA and the Treasury Department on open investment policies. ADIA MD Sheikh Ahmed echoed the strategic nature of the political-economic relationship between the U.S. and the UAE.

¶16. (S) Sheikh Ahmed confirmed that 45% of ADIA's investments are U.S. based and described the U.S. as the most important market for investment, adding there is "no other choice." He expressed confidence that the U.S. is doing better than other countries in dealing with its problems and asked when the U.S. economy would no longer rely on government spending. ADIA officials asked about the role of investment v. consumption in sustaining growth in the U.S, the status of U.S. financial sector regulatory reform, and the forecasts for distress in U.S. commercial real estate debt.

¶17. (C) Sheikh Ahmed noted that ADIA pays close attention to political issues when deciding where to invest. He described Iran's destabilizing role in the region, adding that neighbors should support, not threaten, one another.

¶18. (C) ADIC MD Khalifa al Kindi asked Wolin about ADIC's inquiry regarding its status under Section 892 of the Internal Revenue

Code. Khalifa raised the visit of ADIC officials to Washington in October 2009 and a January 2010 letter addressed to Acting Assistant Secretary Michael Mundaca. Wolin stated that Treasury was currently reviewing the January letter and pledged to personally keep abreast of the issue to ensure that ADIC receives a timely response.

¶19. (C) ADIC officials peppered Wolin with questions regarding financial sector reform and the so called "Volcker Rule." Wolin detailed the purpose, scope and procedural issues pertaining to financial sector reform and the Volcker Rule. ADIC asked about the mechanics of restricting proprietary trading by bank holding companies, and in particular the possible impact on bank holding companies that finance, sponsor or serve as a general partners in hedge funds. ADIC asked about Treasury's overall views on hedge funds and their status as "dark pools" of capital. ADIC also asked about reforms that would address rating agencies in light of their involvement in birthing the financial crisis.

¶20. (C) ADIC asked about the current administration's views on SWFs, to which Wolin responded that the U.S. welcomes all foreign investment.

TRADE

¶21. (C) Wolin affirmed the USG commitment to open investment policies and emphasized that the CFIUS process is concerned solely with issues of national security. Minister of Foreign Trade Sheikha Lubna stated that U.S. leadership in the world economy remains paramount as the U.S. remains "the compass." She acknowledged the need for the U.S. to be more inward focused during this period of economic recovery, but stated that this situation can create anxiety as the trade policy part of the U.S. has gone silent. U.S. visibility on this front is very important to protect and promote global trade. Lubna pointed to very positive visits to the UAE by Secretary Geithner and various congressional delegations, and pleaded for similar trade-oriented visits by Commerce Secretary Locke and USTR Kirk. Lubna stressed opportunities in the knowledge and services sectors, including health care, education, renewable energy and nuclear.

¶22. (C) Lubna pointed to high level trade visits between the UAE and China, Japan, South Korea and India, with UAE-India trade now reaching $48 billion annually. Wolin concurred with Lubna's assessment on the importance of government supporting trade relations and offered to discuss the issue with the Department of Commerce and USTR.

¶23. (C) Wolin raised the Doha round and encouraged the UAE to relax foreign ownership controls in its financial services sector. Lubna suggested that the U.S. and UAE start an informal working group to identify easy and tough points surrounding the issue. Wolin concurred and offered Treasury DAS Baukol to coordinate the Treasury side; Lubna nominated her deputy Abdullah Saleh.

¶24. (C) With respect to a Free Trade Agreement (FTA), Lubna mentioned show stoppers including energy and companies law. She commented that returning to the table and failing to conclude an FTA would send a bad signal. Instead, Lubna recommended trying to make progress on issues where common ground can be reached so that successes can be exemplified. Lubna expressed confidence much progress could be achieved without pursuing an FTA and recommended the U.S. and the UAE establish a Joint Economic Committee similar to the one the UAE holds with the UK that would focus initially on services and IPR. Lubna suggested combining the Committee with the

U.S.-UAE Business Council.

This cable has been cleared by Treasury.
OLSON